

# CERF



COUNTY EMPLOYEES' RETIREMENT FUND

## **Summary Annual Report**

For the Fiscal Year Ending December 31, 2007

Helping you build a brighter tomorrow

# COUNTY EMPLOYEES' RETIREMENT FUND

## CERF Pension Plan Information

CERF Administrative Office  
2121 Schotthill Woods Drive  
Jefferson City, MO 65101

Telephone: (573) 632-9203  
Toll-Free: (877) 632-2373  
Facsimile: (573) 761-4404  
Website: [www.mocerf.org](http://www.mocerf.org)  
E-mail: [admin@mocerf.org](mailto:admin@mocerf.org)

## CERF Savings Plan Information

Great-West Retirement Services  
100 N. Tucker, Suite 100  
St. Louis, MO 63101

Toll-Free: (877) 895-1394  
Facsimile: (314) 241-2181  
Website: [www.gwrs.com](http://www.gwrs.com)\*  
E-mail: [james.ellison@gwrs.com](mailto:james.ellison@gwrs.com)  
KeyTalk® Info Line: (800) 701-8255\*

\*User Name and Personal Identification Number required.

## COUNTY EMPLOYEES' RETIREMENT FUND 2007 Board of Trustees

**Conny Dover** – *Board Member*

**Rosemary Gannaway** – *Secretary*

**Ken Dillon** – *Board Member*

**Dick Jones** – *Board Member*

**Peggy Kubicek** – *Board Member*

**Elaine Luck** – *Vice-Chair*

**Kay Murray** – *Board Member*

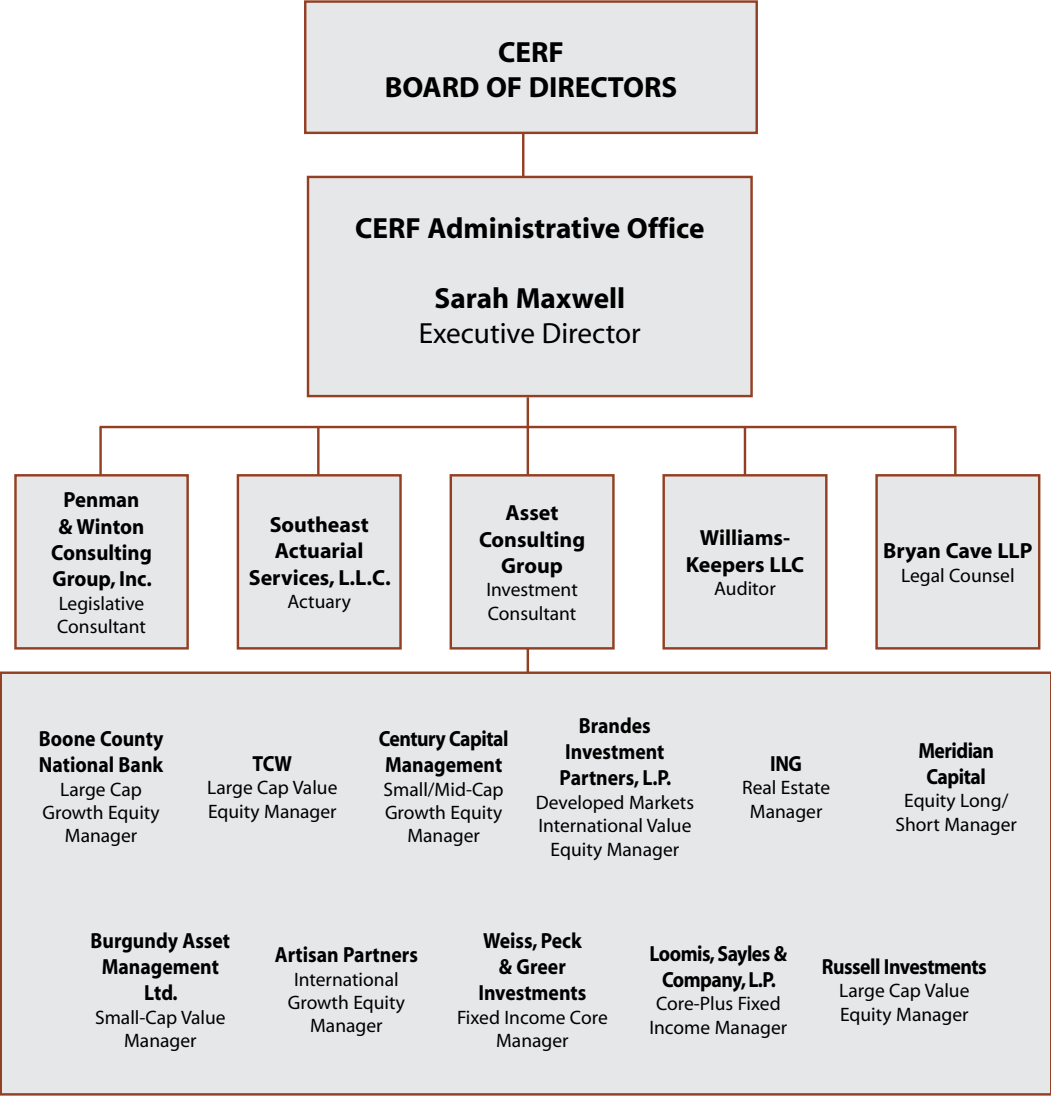
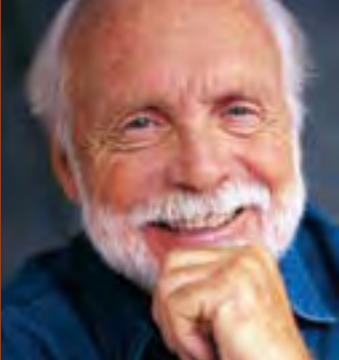
**John Prince** – *Board Member*

**Jerry Reynolds** – *Board Member*

**Wayne Scharnhorst** – *Chair*

**Frank Sifford** – *Board Member*

# ADMINISTRATIVE STRUCTURE



*This Annual Report is distributed for informational purposes only. The full text of actuarial reports, financial statements and audit materials is available upon request pursuant to Missouri’s Open Records Law. To request any of these documents, you may send a written request to the plan administrator at:*

*CERF Plan Administrator  
2121 Schotthill Woods Drive  
Jefferson City, MO 65101*

*The actual language of the statutes and rules and regulations creating and implementing the County Employees’ Retirement Fund controls and takes precedence over the material contained herein. In the event a member has any questions concerning the County Employees’ Retirement Fund, the member should look to the statutes codified at Section 50.1000, RSMo (1994) et. seq. for guidance. Members should not rely on this summary in place of the actual text of the law.*

# Cerf Pension Plan

Eligibility	Full-time employees (scheduled to work 1,000 hours a year) are eligible to participate in the Pension Plan. Part-time employees become eligible on January 1 or July 1 after completion of 1,000 hours of service in a calendar year, or upon transfer to full-time status.
Participation	Participation is mandatory for eligible employees. Full-time employees begin participating in the plan immediately upon their date of hire. Part-time employees begin participating once they become eligible.
Contributions	House Bill 1455 required all participants hired on or after February 25, 2002, to contribute an additional 4% of gross salary to the plan, effective January 1, 2003. A non-LAGERS participant hired prior to February 25, 2002, contributes 2%; a non-LAGERS participant hired on or after February 25, 2002, contributes 6% to the plan. A LAGERS participant hired prior to February 25, 2002, is not required to make contributions; a LAGERS participant hired on or after February 25, 2002, contributes 4% to the plan. Nearly all of the funding for CERF comes from county contributions in the form of fees and penalties.
Vesting	A participant is vested after eight creditable years of service.
Prior Service	Employees who were employed on June 10, 1999, and remained employed through January 1, 2000, do not have to purchase prior service. (Specific rules apply in certain rehire circumstances.) Members who terminated vested or retired prior to January 1, 2000, must purchase any service accrued prior to August 28, 1994, in order to include that service in their retirement benefit.
Early Retirement	Members have the option of retiring as early as age 55 (with eight years of creditable service) and receiving an actuarially-reduced benefit. To be eligible for early retirement, a participant must terminate employment on or after January 1, 2000, and meet other eligibility requirements.
Cost-of-Living Adjustment	The Board may authorize a COLA each year equal to 100% of the Consumer Price Index, up to 1%, for all members who have been receiving benefits for at least one year on the date the COLA becomes effective. Cost-of-Living Adjustments will become effective on July 1 of each year.
Survivor Benefits	<p>ACTIVE EMPLOYEES: If a participant dies while actively employed, his or her named beneficiary will receive a lump-sum death benefit of \$10,000. In addition, if the participant's death should occur after eight years of service, the surviving spouse is eligible to apply for a 50% spousal benefit.</p> <p>VESTED TERMINATIONS: If a participant is vested but terminates employment prior to becoming eligible to draw a benefit, and then dies before his or her pension begins, his or her surviving spouse can apply for a 50% survivor benefit.</p> <p>SINGLE, VESTED MEMBERS: House Bill 795, effective 8/28/04, allows a refund of contributions to the beneficiary(ies) of a single, vested member who dies on or after August 28, 2004.</p> <p>RETIRED MEMBERS: Depending on which option the member chooses, the designated survivor will receive the appropriate amount of benefits under the survivor option designated on his or her benefit calculation. Members who terminate employment or retire on or after January 1, 2000, have the option to designate someone other than a spouse as the beneficiary of their retirement annuity.</p>

# Cerf Pension Plan

<b>Eligibility</b>	A member must participate in the CERF Pension Plan in order to be eligible to participate in the CERF Savings Plan.
<b>Automatic Contributions</b>	Effective January 1, 2000, a member who is not in LAGERS is required to contribute .7% to the CERF Savings Plan. This pre-tax deduction is deposited automatically in the member's 401(a) account.
<b>Voluntary Contributions</b>	In 2007, participants may contribute up to the lesser of \$15,500, or 100% of their includible compensation to the 457 component of the plan. This limit includes contributions to other 457 plans as well.
<b>Matching Contributions</b>	Each year, the Board of Directors will determine the amount available for a matching contribution to the Savings Plan (up to plan limits). This matching amount will be added to member accounts for those who earn at least 1,000 hours during the year, retire at age 62, or die while employed by the county, and will be deposited into member accounts as soon as administratively feasible after the plan year has ended. Any matching money granted to member accounts will be deposited into the 401(a) portion of their account.
<b>Vesting</b>	Members are always 100% vested in their automatic and voluntary contributions to the plan and are 100% vested in the matching contributions when they have 5 years of creditable service (from date of hire) or if they die during the plan year.
<b>Investment Options</b>	A broad range of investment options is available, including the option to pick individual funds or investing through a selected portfolio.
<b>Making Changes</b>	Participants may change the amount of their contributions on a quarterly basis and can stop deferrals completely at any time. Changes to investment options can be done at any time. Investment changes can be made on a same-day basis through either Keytalk at 800-701-8255 or through the website at <a href="http://www.gwrs.com">www.gwrs.com</a> .
<b>Payment Options</b>	Payments from the 457 or 401(a) portion of the plan may be made through annuity payments, lump sum, or periodic distributions if the account balance is \$5,000 or more.
<b>Rollovers and Plan Transfers</b>	Members who have other qualified 457 or 401(a) or (k) plans may transfer or roll over money from those plans to the appropriate component of the CERF Savings Plan. Likewise, if a member leaves employment, he or she may transfer or roll over his or her CERF Savings Plan balance to another qualified plan or IRA.
<b>Need More Information</b>	For more information on the CERF Savings Plan, please see the contact information on the Administration page of this document or call the CERF Administrative Office for a copy of the most recent Savings Plan brochures.

# Investments

## Overview

The County Employees’ Retirement Fund (CERF) investment portfolio is managed in accordance with the plan’s investment policy, which clearly defines the guidelines and parameters within which CERF’s retirement plan assets are to be invested and monitored.

## Total Portfolio Investment Guidelines and Objectives

CERF’s overall investment objective is to maximize return within prudent risk parameters over a long-term time horizon. All investment-related decisions are made in the best interest and for the benefit of the pension plan’s participants. The primary tool that the Board of Directors uses to manage risk is diversification. By spreading investments across a variety of asset classes and strategies, the variability (i.e. volatility) of returns is reduced. Over time, reducing this variability results in higher portfolio value and improves the likelihood that its investment objectives are met.

CERF has three broad long-term investment objectives: (1) to achieve a return of 1% over the actuarial assumption rate (currently 8%) in order to provide ongoing support to beneficiaries, (2) to grow the portfolio assets at 5% over the inflation rate to preserve the portfolio’s purchasing power over time, and (3) to outperform a blended passive index (blended benchmark) which mirrors the portfolio’s asset allocation mix to evaluate the success of the portfolio’s investment strategy.

CERF’s investment policy defines specific long term goals (return and risk) for its investment program. The following chart summarizes the pension plan’s results compared to the objectives defined by the investment policy:

## Total Pension Fund Performance For Period Ending December 31, 2007

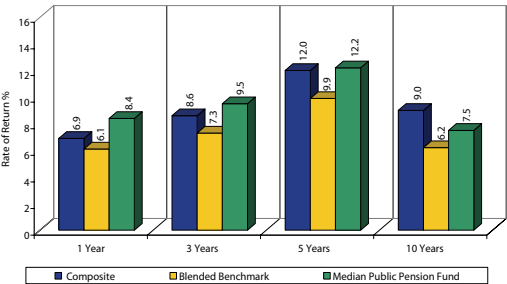
	Benchmark	CERF	Objective Met?
• At a minimum, it is the objective of CERF to exceed its actuarial interest rate assumption by 1% on an ongoing basis.**	9.0%	9.0%	YES
• The Pension Fund’s annualized total return should equal or exceed the annualized rate of inflation as indicated by the Consumer Price Index by 5%.	2.7%	9.0%	YES
• The Pension Fund’s total return should exceed the total return of an index composed as follows: 65% S&P 500 Stock Index 35% Lehman Brothers Aggregate Bond Index	6.2%	9.0%	YES
• The Pension Fund’s level of risk, as measured by Standard Deviation, should be consistent with the risk of an index composed as follows: 65% S&P 500 Stock Index 35% Lehman Brothers Aggregate Index	10.4	10.1	YES

\*All returns shown are for ten years ending December 31, 2007.  
\*\*The desired objective on a long-term basis is to achieve an excess return over the actuarial assumption by 1%, which is an absolute objective of 9%, net of management fees and transaction costs. Long term is defined as ten years.

## Total Portfolio Performance

The CERF investment portfolio was valued at over \$255 million at the end of 2007. CERF’s investment performance compared to relevant benchmarks for various time periods ending December 31, 2007 is shown in the chart at top:

## Total Fund Performance For Period Ending December 31, 2007



## Total Portfolio Asset Allocation

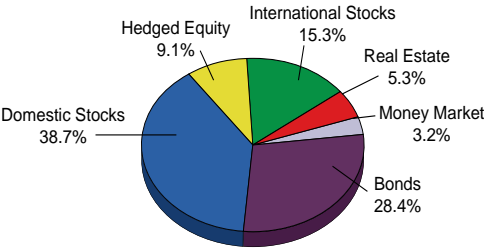
CERF’s asset allocation mix is continually monitored and reviewed to ensure that it is appropriate given CERF’s investment objectives and guidelines, the current size of the portfolio, the fund’s liability stream and risk tolerances.

In 2007, the Board completed a thorough review of the investment allocation and considered a variety of strategies for potential inclusion in the portfolio. In order to enhance potential returns and improve diversification, the Board approved the addition of two new strategies: absolute return and private equity. The absolute return strategies will further diversify the fixed income portion of the portfolio while private equity is expected to enhance the return of the equity portion of the portfolio.

The portfolio’s current target asset allocation mix is 65% equity, 30% fixed income and 5% real assets (real estate).

The chart below depicts the pension plan’s asset allocation as of December 31, 2007:

## Total Fund Asset Allocation As of December 31, 2007



**Total Fund Assets: \$255,394,027**

## Equity Portfolio Guidelines & Objectives

Diversification is key to any long-term investment program. CERF’s equity portfolio is diversified by asset class (domestic stocks, international stocks, hedged equity funds, and private equity), investment size (small, mid and large capitalization stocks), investment style (value and growth stocks), and investment management organization (different money managers are responsible for managing specific pieces of the portfolio).

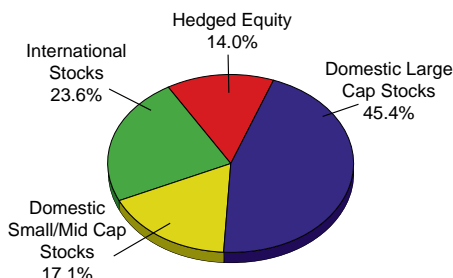


# Investments

The chart below displays the equity asset allocation for the CERF pension plan as of December 31, 2007:

## Equity Asset Allocation

*As of December 31, 2007*



**Total Equity Assets: \$166,030,351**

## Equity Style Allocation

Diversification extends beyond the asset allocation decision and is an important element in the implementation and manager selection process. Each equity manager is expected to invest in a well-diversified portfolio of high quality securities. The managers are also given specific performance hurdles which they are expected to exceed over reasonable periods of time and within appropriate risk parameters. Each investment manager who is employed by CERF is given a specific assignment along with detailed guidelines and constraints within which they are expected to manage their portion of the portfolio.

## Fixed Income Portfolio Guidelines & Objectives

Bond or fixed income investments are included in the portfolio to enhance diversification and to protect the portfolio in difficult times. Generally, fixed income investments are more stable than equity investments and tend to perform consistently regardless of movements in the stock market. The fixed income portfolio is intended to represent the broad fixed income markets, with an emphasis on high quality bonds. Like CERF's equity managers, the fixed income managers are also expected to exceed specific hurdles within well defined risk parameters.

## 2007 Year in Review

The U.S. economy accelerated from January through September. Economic growth in the third quarter was the highest since 2003 as a strong job market helped fuel a rise in personal incomes and consumer spending. The continued slump in the US real estate market led to reduced growth in the fourth quarter and resulted in talk of a potential recession.

U.S. equities hit all-time highs on October 9, the five year anniversary to the day of the current bull market, but experienced a sharp pull back by year-end. The market was hurt by mounting losses tied to subprime mortgages.

These losses have been especially hard on financial institutions such as banks and brokerage firms. The S&P 500 Index, which is a proxy for large cap stocks, increased 5.5% for the year. Mid cap stocks also generated positive returns with the Russell Midcap Index posting a return of 5.6%. Small cap stocks posted their first annual decline since 2002 with the Russell 2000 Index returning -1.6%.

Overall, international equity returns were greater than U.S. equity returns. The most commonly used benchmark for international equity stocks, the MSCI EAFE Index, was up 11.6% in 2007. For US investors who have invested in foreign markets, the 2007 returns were enhanced by the decline in the US dollar.

Consistent with expectations, fixed income investments offered a safe haven for investors in 2007. The Lehman Brothers Aggregate Index generated a return of 7.0% for the year. Defaults in subprime mortgages led investors to question the creditworthiness of many fixed income instruments that were backed by pools of mortgages. The Federal Reserve sought to stabilize the markets by reducing interest rates during the last half of the year.

During 2007, CERF's pension plan posted a total return of 6.9%, which outpaced the 6.1% return of its policy benchmark. Over the ten-year period ending December 31, 2007, CERF's 9.0% annualized return ranks in the top 5% when compared to other public pension funds. This means that CERF outperformed 95% of the public pension funds in the peer group.

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## Ongoing Monitoring

The investment consultant assists the Board in creating and updating investment policy, developing, monitoring and updating the asset allocation strategy, assessing overall portfolio and individual manager risk, monitoring and evaluating the fund's investment managers, and making recommendations regarding changes or adjustments to the portfolio where appropriate.

Prior to hiring a new investment manager, the Board works with the investment consultant to complete a thorough review. The due diligence effort includes an onsite visit to the candidate manager in which members of the Board meet with senior firm members to assess critical issues such as organizational stability, team depth, and risk management.

The investment managers also provide monthly updates on their portfolios to the consultant and CERF's staff. In addition, each investment manager presents a formal update to the Board on a periodic basis.

CERF's Board and their consultant meet each calendar quarter to review the investment portfolio in detail and to discuss and address specific issues. In addition, interim meetings are held as needed to ensure that the monitoring and oversight process for CERF's investment portfolio is ongoing.

# Actuarial

## PLAN MEMBERSHIP

AS OF JULY 1, 2007

Covered Payroll	\$320,317,003
Average Pay per Active Member	\$29,263

## ANNUAL REQUIRED CONTRIBUTION

Unfunded Actuarial Accrued Liability (UAAL)	\$53,759,633
Amortization of UAAL, with interest to mid-year*	\$4,281,487
Normal Cost, with interest to mid-year	\$13,579,969
Reduction in Normal Cost for member contributions	\$5,930,882
Annual Required Contribution as a percent of payroll	\$11,930,574 3.72%

## PLAN ASSETS

Market / Actuarial Value	\$254,803,856
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## FUNDED STATUS

Actuarial Present Value of Accrued Benefits (based on current pay)	\$266,760,225
Funded Ratios	
Accumulated Benefit Basis	96%
Actuarial Accrued Liability Basis	83%

\* The UAAL is being amortized as a level percentage of payroll over a 30-year period beginning January 1, 1995.

# County Employees'



# Financial Statements

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2007

### ASSETS:

#### Investments at Fair Value:

Investments	\$ 226,372,093
Net unrealized gains (losses)	<u>24,243,533</u>
Total Investments	\$ 250,615,626

Invested securities lending collateral	\$ 69,297,655
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#### Receivables:

Accrued dividends & interest on investments	813,408
Accounts Receivable – Counties	2,296,294
Accounts Receivable – Members	382,539
Accounts Receivable – Buyback	<u>127,847</u>
Total Receivables	\$ 3,620,088

Other Assets	11,842
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Capital assets, net of depreciation	4,015,139
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Cash in bank	<u>1,217,479</u>
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Total Assets	\$ <u>328,777,829</u>
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### LIABILITIES:

Accounts payable	\$ 352,397
Accrued defined contribution plan contribution	1,626,581
Other accrued expenses	124,951
Deferred revenue	138,689
Collateral for securities on loan	<u>69,297,655</u>

Total Liabilities	\$ <u>71,540,273</u>
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Net Assets Available for Benefits	\$ <u><u>257,237,556</u></u>
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# Retirement Fund



STATEMENT OF CHANGES IN NET ASSETS  
AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2007

ADDITIONS:

Contributions:

County Receipts	\$19,760,207
Members, regular	6,860,679
Members, county-paid	694,056
Members, purchase of prior service	82,737
Total Contributions	<u>\$27,397,679</u>

Investment Income:

Interest Income	4,228,613
Dividends	2,790,870
Net appreciation in fair value of investments	8,975,613
Total Investment Income	<u>15,995,096</u>
Less: Investment expenses	(1,358,727)

Net Investment Income	<u>14,636,369</u>
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Securities lending income	3,637,542
Less expenses	(3,558,716)
Net securities lending income	<u>78,826</u>

Total Additions	<u>42,112,874</u>
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DEDUCTIONS:

Benefits paid directly to participants	12,122,669
Refunds of member contributions	2,233,588
Defined contribution plan matching contribution	1,626,581
Administrative expenses	1,938,959
Total Deductions	<u>17,921,797</u>

Net Increase	24,191,077
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Net Assets Available for Benefits

Beginning of Period	<u>233,046,479</u>
End of Period	<u><u>\$257,237,556</u></u>

# CERF Demographics

(Data as of December 31, 2007)

Active Participants	11,050
Retired Members and Beneficiaries	2,453
Terminated Vested Participants	1,468
Sum of Death Benefits (since inception)	\$ 2,949,948
Sum of Remaining Buy Back Balances	\$ 127,847
Sum of Benefit Payments, Taxes and Buy Back Payments (since inception)	\$ 72,285,952
Average Gross Monthly Benefit	\$413.53

## Summary of County Contributions for 2007

Assessor Late Fees	Collector Merchant License Fees	Collector Delinquent Fees	County Interest	Employee Contributions	County Contributions	Recorder Document Filing Fees
\$4,745,678	\$1,183,115	\$7,170,819	\$173,633	\$6,839,830	\$694,056	\$6,485,465

**County Employees' Retirement Fund**  
*2121 Schotthill Woods Drive*  
*Jefferson City, MO 65101*

Presort Standard  
U.S. Postage Paid  
Jefferson City, MO  
Permit No. 337